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1. UAR

The Israeli shelling of Egypt's two petroleum refineries at Suez has dealt a major blow to the Egyptian economy.

Industrial output, which accounts for well over half of Egypt's petroleum consumption, will be curtailed for some time by petroleum supply and distribution problems. A cutback in fertilizer production as a result of damage to an adjacent fertilizer complex may also cause some reduction in agricultural output. In addition, Egypt's transport and communications facilities, fueled largely by petroleum, will be hampered.

Although the actual extent of damage still is not known, the entire production at Suez of 140,000 barrels per day (bpd) has been stopped temporarily.

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Up to \$150 million may be involved in completely rebuilding these facilities. Domestic refining capacity now in operation consists only of a refinery at Alexandria that can produce about 30,000 barrels per day--a quarter of Egypt's domestic consumption of 120,000 bpd.

Egypt has taken a stopgap measure to obtain immediate essential requirements for refined products. An arrangement has been worked out with the British Petroleum Company for its refinery at Aden to process enough crude oil from Egypt's Morgan field to provide about 50,000 bpd of products to be shipped back to Suez for use in Egypt. In the meantime, Egypt will continue to seek additional supplies from all possible sources, including the USSR, US-owned companies, and other Arab states.

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2. SOVIET AIR SERVICE TO THE WESTERN HEMISPHERE

Soviet air service to the hemisphere is providing another irritant in US-Canadian relations. The Canadians have thus far declined to act on a renewed Soviet request for landing rights at Gander for onward flights to Cuba but are giving the proposal further consideration. Ottawa might react favorably if convinced that reciprocal rights were of sufficient value to Canada.

Canadian approval of such onward flights to Cuba--sought by Moscow since the inception of its service to Havana in December 1962--would nullify US efforts of the past five years to prevent the USSR from acquiring a more advantageous and economical route to Havana. Largely as a result of these efforts, Soviet endeavors to fly to Cuba via Africa or Europe have been unsuccessful and Moscow has been compelled to make long, costly, and hazardous flights via Murmansk over 5,000 nautical miles of international waters.

Service to New York, originally targeted for last spring, was delayed until the Soviet IL-62 jet transport entered international service. Technical data on the IL-62 now has been submitted to the Federal Aviation Authority, paving the way for a proving flight on 27 November. There also are indications that the USSR is prepared to accept the \$75,000 passenger indemnity required by the US. Moscow recently received Canadian approval permitting its airline to combine service to New York with that to Montreal, thus making the North American operation more economical.

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4. SOUTH ARABIA

With British evacuation slated to take place before the end of the month, the National Liberation Front (NLF) has emerged as the dominant political group in South Arabia.

Britain's reluctance to give a firm answer to the NLF's demand for recognition and negotiations has complicated the already difficult problem of the turnover of power. The NLF now has little chance to set up and consolidate an effective government before the British leave.

Chances for future stability have been improved, however, by the army's open declaration of support for the NLF. The army presumably decided to jump on the bandwagon once it became clear that the NLF had soundly beaten its rival, the Front for the Liberation of occupied South Yemen (FLOSY), in last week's fighting. A few pockets of FLOSY resistance remain, but the NLF seems to have the military situation well in hand.

Establishing a viable government is something else again, however. If an NLF government is to have any chance of survival, its principal immediate need is money to pay the army and police forces. If some kind of order can be established, at least in Aden, some trade would be encouraged to return which might attract external aid and assistance. At present there is no sign of anyone putting up the necessary funds for payment of the security forces.

Any new government that is set up will be confronted with South Arabia's endemic factionalism and divisive tribalism, as well as the problem of relations with Yemen. Although Adenis are presumably weary of continued fighting, deeply rooted blood feuds and factionalism may prove impossible to eradicate.

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5. SUCCESSION IN SPAIN

New reports that Generalissimo Franco's health is deteriorating are again focusing attention on the succession problem. Barring death or severe incapacitation, Franco is unlikely to give up either his position as chief of state or as president of the government.

A new constitutional law which became effective in January 1967 permits Franco to designate a president of the government. The appointment in September 1967 of Admiral Carrero Blanco to the vice presidency suggests that Franco does not intend to name his own successor as president of the government. Should Franco die or become incapacitated, Carrero would succeed him as president until the formal process of choosing a successor is completed. As vice president, Carrero, who has long been Franco's right hand, can now easily assume such duties and functions as Franco desires. Thus Franco is now in a position to delegate authority without having to share command powers.

Though some new appointments and several reassignments are likely to be made in the cabinet before the end of the year to deal with economic problems and labor and student unrest, no important modifications of the basic policies are expected.

Franco is also unlikely to act on the problem of naming a successor as chief of state. Vice President Carrero, a promonarchist, leans to Juan Carlos, son of the chief pretender Don Juan. But the choice of a nonroyal regent permitted by the succession law still cannot be ruled out.

Ultimately the succession is expected to be controlled by the military. Any new government would have trouble channeling the long-deferred and rising demands of various groups for quicker economic, social, and political reform.

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